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DIRECTORATE OF  
INTELLIGENCE

## Intelligence Report

### *The Situation in South Vietnam* (Weekly)

**Secret**

144

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CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence

THE SITUATION IN SOUTH VIETNAM  
(26 June - 2 July 1967)

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## I. POLITICAL SITUATION

Chief of State Thieu and Premier Ky joined forces on a single presidential ticket on 30 June, following several days of intensive meetings of the military members of the Directorate and the Armed Forces Congress. General Duong Van Minh, despite his continuing exile in Bangkok, managed to have his running mate, former Social Welfare Minister Tran Ngoc Lieng file his presidential candidacy papers for him. These subsequently were approved by the Provisional National Assembly. General Nguyen Ngoc Loan has been removed as chief of the Military Security Service, but will retain his position as director general of the National Police.

### The Thieu-Ky Ticket

1. Chief of State Thieu and Premier Ky have joined forces on a single presidential ticket, headed by Thieu. The official announcement, which was made by the Directorate's press secretary on 30 June, followed four days of intensive, highly charged meetings of the military members of the Directorate and the approximately 50-man Armed Forces Congress, the supreme military authority in South Vietnam. Thieu's and Ky's official papers have already been submitted to the Provisional National Assembly for approval, which should be routine. Both men had already filed their separate candidacies earlier in the week. Ky's running mate was to have been Peoples-Army Council Chairman Nguyen Van Loc, and Thieu had chosen Hoa Hao leader Trinh Quoc Khanh.

2. The Directorate started deliberations on 27 June in an effort to reach some consensus on how to handle the request by Duong Van Minh ("Big Minh") to be allowed to return from Bangkok and to run for the presidency. During a subsequent meeting on the 28th, however, the Ky-Thieu rivalry was brought out into the open. That session set the stage for the next two days

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of intensive discussions in the Directorate and the Armed Forces Congress. The "Big Minh" issue gave way to efforts by Thieu, Ky, and the other generals on the 29th and 30th to confront the increasingly serious portent of a split within the military establishment over the separate candidacies of Thieu and Ky.

3. As it stands now, Thieu has emerged as the apparent victor for the moment in the test of strength that both he and Ky had religiously avoided for months. Information about the meetings of the Armed Forces Congress which hammered out the military-sponsored presidential ticket headed by Thieu with Ky as running mate suggests now that Thieu may not have scored a clear-cut victory over Ky. By his uncompromising attitude, Thieu may have further alienated himself from some key members of the armed forces, as well as actually undercutting his position as president if he is elected.

25X1C 4. [REDACTED] at the close of the 29 June meeting of the Armed Forces Congress, it had been agreed that Ky would be the military candidate and Thieu would withdraw his candidacy, with the promise that he would be named defense minister after Ky's election. However, by the time the congress reconvened the following day, Thieu had reversed his course and declared that he would resign from the army and run as a civilian candidate--a course which the military apparently felt would shatter the unity of the armed forces and would also renege on pledges made to the US.

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5. Premier Ky then offered to resign from the presidential race, thus leaving the way open for Thieu to become the military-sponsored candidate. However, [REDACTED] he allowed himself to be lured back into the vice-presidential slot under an agreement with Thieu which, if fulfilled, would give Ky the right to name cabinet appointments in the new government and to control the armed forces. There is some indication that Ky's decision to step down prompted a spontaneous expression of admiration from at least one key member of the council, and may have generated even more support for him from among the generals.

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General Minh's Candidacy

6. General Duong Van Minh officially filed his candidacy by proxy on 30 June, shortly after the government announced that, for reasons of "national security," Minh and others in exile would not be permitted to return. Minh's candidacy was filed by his running mate, Tran Ngoc Lieng, former minister for social welfare. Lieng, a southern Buddhist, resigned from the cabinet in the fall of 1966 during the controversy prompted by Police Director General Loan's harsh tactics against a southern subcabinet official.

7. Minh's action culminated a week of intense political activity which began when he addressed cables to Ky, Thieu, and Provisional National Assembly Chairman Suu requesting permission to return in order to run for the presidency. On 27 June Minh publicized his desire to run and the government's delaying tactics in an interview with the Bangkok Post. That same day the Directorate held its emergency meeting to discuss Minh's case. Minister of National Security Vien and Armed Forces Inspector General La were dispatched immediately to Bangkok to tell Minh that if he returned he would be arrested as soon as he stepped off the plane, but Minh refused to accept the Directorate decision, telling Vien and La he was intent on returning. Following the return of the two generals to Saigon on 28 June, the Directorate held a second meeting and reaffirmed its decision to keep him out of the country.

8. In the meantime, General Loan, who was in Bangkok early in the week on official business, had reportedly interceded on Minh's behalf with the Vietnamese ambassador to Thailand, instructing the ambassador to countersign Minh's candidacy papers. Loan's intercession, apparently undertaken on orders from the government, was evidently intended as a means of mollifying Minh in the hope that the 30 June filing deadline would pass before Minh had an opportunity to submit his papers.

9. The Provisional National Assembly on 1 July approved Minh's slate by a substantial majority. The government had probably counted on the assembly to refuse to accept a proxy candidacy. However, Chairman

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Suu and other members of the assembly, civilian presidential candidate Tran Van Huong, and, reportedly, militant Buddhists who support Thich Tri Quang have seized upon the Minh controversy to criticize the military Directorate's actions as unconstitutional.

10. The Directorate is now faced once again with the decision of whether or not to let Minh return before the election. If he does return to run, the entire complexion of the presidential contest will again have been altered.

Loan Removed as Security Chief

11. General Loan was removed from his position as chief of the Military Security Service (MSS) on the night of 27 June, but will apparently remain as director general of the National Police. Loan's deputy for both the MSS and the National Police, Lt. Col. Tran Van Thang, was named acting MSS chief. 25X1C

25X1C [REDACTED] 25X1  
[REDACTED] It cannot be determined at this point what effect the alteration in the Thieu-Ky candidacies will have on Loan's considerable powers as National Police director.

Lower House Election Date Set

12. The Provisional National Assembly has again challenged the Directorate's wishes and has voted to hold lower house elections on 5 November. The Directorate had favored 1 October. Before the vote was taken, several deputies proposed soliciting the Directorate's views, but the suggestion was disregarded.

Tran Van Do to Run for Upper House

13. Foreign Minister Tran Van Do announced on 27 June that he intends to run for the Senate, but he apparently will not resign as foreign minister until after the elections.

## II. REVOLUTIONARY DEVELOPMENT

Intelligence operations against the Communist infrastructure in the Saigon area have resulted in the apprehension of 40 district and regional cadre of the Communists' Region 4 or Saigon Special Zone. As of 17 June, 17,134 Communists had rallied to the government under the Chieu Hoi or "Open Arms" program. The number of returnees thus far in 1967 is approximately 85 percent of the total for 1966. The Vietnamese Government continues to try to institute reforms to streamline its structure and operation and has recently made efforts to improve over-all management and modernize its tax structure. In addition, a proposed government plan would establish circuit courts for the 31 provinces.

### Intelligence Operations Against the Communist Infrastructure

1. Between October 1966 and May 1967 the Special Branch of the National Police in conjunction with the Military Security Service (MSS) apprehended 40 district and region Communist cadre in the Communists' Region 4 or Saigon Special Zone. The "roll-up" of these cadre is believed to be one of the severest blows inflicted upon the enemy infrastructure in any Communist region in recent years and is apparently the result of efforts by Vietnamese security services to upgrade their counter-intelligence investigations and operations.

2. The elimination of these 40 members of the Communists' Region 4 infrastructure will primarily affect the enemy's operations in the Saigon area and particularly weaken their efforts to proselyte the civilians. Thirty-three of the cadre arrested held positions in both the Communist Party and in the so-called National Liberation Front (NLF) in Region 4 and, therefore, the loss to the over-all

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Communist effort in the region may be considerable. It is probable that many of the Region 4 plans for 1967 have had or will have to be postponed or canceled for--in light of other reports which indicate a serious shortage of cadre in the region--it may be some time before those apprehended can be effectively replaced. Moreover, it is not clear how much of the Communist apparatus in Region 4 remains intact.

3. The Communists' Region 4 or Saigon Special Zone encompasses the government's Saigon-Cholon area, the districts--except Can Gio and Quang Xuyen--within Gia Dinh Province, Cu Chi District in Hau Nghia Province, Phu Hoa District in Binh Duong Province and Di An District in Bien Hoa Province. The population of the area is estimated at 3.3 million and since this area is the social, political, and economic center of the country it has been a prime target for Communist operations, particularly political and economic.

4. The Region 4 committee sections whose cadre have been apprehended include Economic-Finance, Intellectuals' Proselyting, Workers' Proselyting, and the Saigon Market Sections. The NLF organizations which have reportedly lost allegedly key cadre include the "Democratic Party," Labor and Women's Associations, and the High School Teachers' Union. In addition, several cadre from the Thu Duc and Di An District Committees were arrested.

#### Developments in the Chieu Hoi Program

5. As of 17 June, 17,134 Communists had rallied to the government under the Chieu Hoi or "Open Arms" program. Approximately 10,847 of the returnees--called Hoi Chanh--have been classified as ex-members of Communist military organizations. The total number of returnees thus far this year is approximately 85 percent of the total for 1966.

6. For the four-week period prior to 17 June, however, the weekly totals were about 30 percent below the yearly average. The reduced rate is

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partly attributable to a decline in allied military activity and to the government's political activities during this period. In the past political events--as in this case the village and hamlet elections--have been accompanied by a slow down in the rate of returnees.

7. The large numbers of ralliers so far this year has resulted in many provincial Chieu Hoi centers becoming overcrowded and in some cases the centers have been unable to cope with the influx. There are adequate 1967 piastre budget funds available to double the size of every Chieu Hoi Center in Vietnam; however, these funds have still not been released to the province chiefs. The Chieu Hoi planning and funding system available on the GVN side is not conducive to normal, efficient functioning and on the US side the system has thus far shown that it is not able to respond to emergency conditions. Throughout the GVN a system for accounting and auditing of Chieu Hoi funds is apparently nonexistent and in many areas advisors--primarily third country nationals--are not able to gain access to documents which indicate the disbursement of funds.

8. After a Hoi Chanh is released from a center, it is estimated that 60 percent return to their previous occupations--by and large agriculture--20 percent enter into some form of government service, and 20 percent are left without anything to do or anyplace to go. The Chieu Hoi Center's vocational training programs are aimed primarily at the latter and are designed to prevent them from returning to service with the Viet Cong. Many provinces have organized Chieu Hoi Employment Committees to place the vocational trainees in jobs or encourage others to work for the government. The majority who return to farming either return to their native villages or move to the Chieu Hoi resettlement hamlets.

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Government Administrative Reforms:Public Administration

9. On 12 June Prime Minister Ky issued a decree which established the Central Management Office and made it a part of the premier's office. The new office was created to provide a focal point for all government agencies in management improvement efforts and systems analysis services. The Vietnamese Government anticipates that this planning group will play a role in the transition from the military to civilian government which will occur in September or soon thereafter. The Central Management Office is currently composed of nine senior civil servants who--prior to establishing programs for their own government--are scheduled to visit several Asian countries and the US to observe and talk with officials working in the similar fields.

10. The Committee for Administrative Improvement, which has existed in the premier's office and has done a commendable job in fostering administrative reforms, will apparently continue to function at least until the newly elected government takes office. This committee's work will now be directed towards suggesting improvements in public administration, especially with regard to post-Revolutionary Development programs. Some of the past recommendations of the committee have led to a 60 percent reduction in the mail flow to the premier's office and the concurrent abolition of 20 positions, the relocation and increased use of the central documents library, and the establishment of the position of a press secretary for the premier. Other concurrent changes recommended by the committee have enabled the premier's office to exercise more effective supervision over the government apparatus and helped to create an atmosphere in which efficient and effective organizational changes can and have been made.

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Taxation

11. Over the past several months many changes have been made in the government's taxation policies and in the administration of the tax system. On 1 June Chief of State Thieu signed into law another reform which will cause large scale changes in corporation tax policies. The new law places the corporations on a quarterly installment "pay as you go" basis and further provides for an accelerated schedule for payment of corporation taxes for 1966 and 1967. Earlier in the year, provisions were made to organize tax audit teams which, where appropriate, will lend assistance to the corporations in the establishment and maintenance of records and, in addition, will conduct spot checks of corporation tax records. In addition, a system for withholding taxes from the pay of all salaried Vietnamese was established and will probably be in effect by 3 July.

12. Four large training classes were started in May to prepare about 300 employees of the Directorate General of Taxation (DGT) for the financial clerk examination in July. For those who pass the exam the way will be open to permanent status, higher pay, and other benefits. About 800 of the 1,700 employees of the DGT are on daily wages and are not only ineligible for employee benefits but receive less pay than the permanent employees. Classes thus far have been full and this is indicative of the widespread interest among employees in this opportunity for advancement. With the influx of US advisors and assistance--much of it from the Automatic Data Processing Association--interest and enthusiasm in their work by employees of the DGT appears to have increased.

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Justice

13. A reform plan by the Ministry of Justice to create circuit provincial courts is now under study. The proposed plan would establish regulations providing for provincial court sites at various places in the provinces. At a June conference in Saigon, the provincial judges agreed in principle to the plan, but noted that the main drawbacks were lack of transportation and in many areas lack of security. Part of the transportation problem was resolved, however, when Premier Ky at the closing of the conference presented keys for seven jeeps to seven of the judges.

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### III. ECONOMIC SITUATION

For the third consecutive week retail prices in Saigon declined slightly. Currency and gold prices were also down somewhat during the week ending 19 June. During the first five months of 1967 import licensing was considerably lower than during the same period of 1966. The GVN deputy minister of economy and finance has recommended suspension of all regulations restricting free movement of hogs to Saigon in order to provide relief to the producers without raising retail prices.

#### Prices

1. For the third consecutive week retail prices in Saigon declined slightly. Nevertheless, these prices still are about 19 percent higher than at the beginning of the year. On 19 June the retail price index for Saigon was one percent below the level of the preceding week, primarily because of lower prices for most vegetables. Rice prices were unchanged except for the price of the most expensive type, which continued to decline. The price of pork bellies, however, rose for the second consecutive week. The over-all price level for nonfood items fell slightly as declines in the prices of firewood and charcoal offset an increase in the price of calico. (A table of weekly retail prices in Saigon is included in the Annex.)

2. Wholesale prices of selected US-financed imports rose slightly during the week ending 20 June. Condensed milk prices increased in response to an announcement that the GVN would cease to grant a subsidy of six piasters per can effective with milk produced in the first quarter of this year. Prices of most brands rose by only one piaster, reportedly because most of this milk had been in stock for several months. As these old stocks are depleted, however, milk prices presumably will gradually rise

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further. Higher milk prices more than offset continued declines in most fertilizer prices, which fell following the announcement of the GVN's new, lower official selling prices.

### Currency and Gold

3. Currency and gold prices were down somewhat during the week ending 19 June following the temporary rise caused by the Middle East crisis. Prices for gold and MPC (scrip) returned to the level of 5 June, or 197 and 111 piasters per dollar, respectively. The price of dollars declined one piaster to 156 piasters per dollar, or one piaster above the price of 5 June. (A graph on monthly and weekly currency and gold rates is included in the Annex.)

### Import Problems

4. During the first five months of 1967 import licensing was considerably lower than during the corresponding period of 1966. This decline has taken place even though licenses are readily available, excess purchasing power exists, and the National Bank of Vietnam (NBVN) has ample foreign exchange reserves. In addition, the USAID Commercial Import Program (CIP) and the Food for Peace Program continue to make substantial financing available.

5. According to a joint Embassy/USAID report, this situation has resulted from two major factors: the character of the goods that can be imported and the character of the institutions for importing and distributing these goods. As incomes continue to increase, demand is generated for perishable goods that are difficult and expensive to import and for services, such as education and medical treatment, which cannot be imported. The second limitation on imports is more complex. Vietnam does not have highly developed business institutions for handling foreign trade or for distributing imported goods once they arrive. When import quotas were removed in mid-1966 many importers ordered more than they could afford or market. About 90 percent of all commercial imports come into the country through the port of Saigon, and many of these goods do not

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reach markets outside the city. For example, a farmer in the delta may want an irrigation pump and have the money to buy it, but may well find that there is no sales agent in his district or in the provincial capital, no stock of spare parts, and no one to service it.

6. In order to encourage importers and keep goods flowing into Vietnam, the NBVN has made available new rediscounting facilities to the commercial banks and substantially reduced the down payment on nonessential goods, which an importer must pay when he gets his license. There is no down payment required on essential goods.

#### Port Marketing

7. Based on a survey of pork marketing conducted in Phong Dinh Province in the delta, Pham Kim Ngoc, the GVN deputy minister of economy and finance, has recommended suspension of all regulations restricting free movement of hogs to Saigon in order to provide relief to the producers without raising retail prices. He stated that production is falling by 20 to 30 percent because the price that hog producers are getting does not cover their costs.

8. The movement of hogs from the producers to the final consumers involves a myriad of people and checkpoints. The farmer sells to an intermediary, who sells to a local hog dealer, who then must get certification from the district chief, the Animal Husbandry Service, the Provincial Economic Service, and the police before he can ship the hogs out of the province. The trip from Phong Dinh to the government slaughterhouse in Saigon involves two ferry crossings and three resources control checkpoints. Once the hogs arrive in Saigon they are sold to another dealer who has a yard at the slaughterhouse. The Saigon dealer then sells the hogs to a market meat stall or pork shop whose owner may have the hogs slaughtered upon presentation of his receipt. This lengthy procedure apparently was designed for three purposes: 1) to provide health inspection at the starting point;

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2) to provide statistics on hog movements; and 3) to assure the supply of hogs for Saigon as well as to channel all shipments to other parts of the country through Saigon. Ngoc argued that health inspection at the provincial level exists in name only and that the final inspection at the slaughterhouse is sufficient. He also pointed out that statistics on hog movements can be supplied by the merchants to the provincial authorities after shipment and sale have taken place and that the resource control checks on the road serve no good purpose at all. As for the third argument, Ngoc saw no reason why the people of central Vietnam should be denied pork in favor of Saigon if they are willing to pay for it at a competitive price. Saigon hog merchants believe that hogs will tend to go where the prices are highest, control or no control.

9. The most harmful aspect of the regulations concerning pork marketing is government price control. The GVN set new official prices in July 1966 for both the provinces and Saigon. The official ceiling price on hogs in Saigon was dropped in January 1967, but provincial price ceilings remained in effect. In Phong Dinh, the official selling price has been enforced with the result that the farmer's return covers on the average only about 80 percent of his costs. The average cost of producing a pig weighing 100 kilograms, which normally takes eight to nine months, has more than doubled since 1965, largely because of higher prices for feed, mainly rice, bran, and vegetables.

10. Ngoc concluded that all the administrative procedures have no more than nuisance value and that, in fact, they depress production, provide opportunities for corruption, and thus increase consumer prices. Superfluous controls also cause delays, which reduce shipments through weight loss and death. Therefore, he recommended the elimination of official prices, health inspection in the provinces, provincial exit permits, and surveillance by the resource control checkpoints. Other GVN officials reportedly agreed with Ngoc's recommendations in principle, but it is not known whether any action has been taken.

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TABLE

## Weekly Retail Prices in Saigon a/

	13 June 1966 b/	3 Jan. 1967	29 May 1967	5 June 1967	12 June 1967	19 June 1967
Index for All Items	<u>173</u>	<u>225</u>	<u>276</u>	<u>271</u>	<u>269</u>	<u>267</u>
Index for Food Items	<u>190</u>	<u>242</u>	<u>311</u>	<u>300</u>	<u>295</u>	<u>293</u>
Of Which: (In Piasters)						
Rice-Soc Nau (100 kg.)	1,250	1,700	2,650	2,550	2,400	2,400
Pork Bellies (1 kg.)	90	130	160	150	160	170
Fish-Ca Tre (1 kg.)	130	150	170	160	160	160
Nuoc Mam (jar)	70	90	150	150	150	150
Index for Nonfood Items	<u>140</u>	<u>195</u>	<u>210</u>	<u>217</u>	<u>221</u>	<u>219</u>
Of Which: (In Piasters)						
Firewood (cu. meter)	360	560	530	550	600	550
Cigarettes (pack)	10	14	14	14	14	14
White Calico (meter)	27	33	32	32	32	34
Kerosene (liter)	7.8	10.5	10	10	10	10

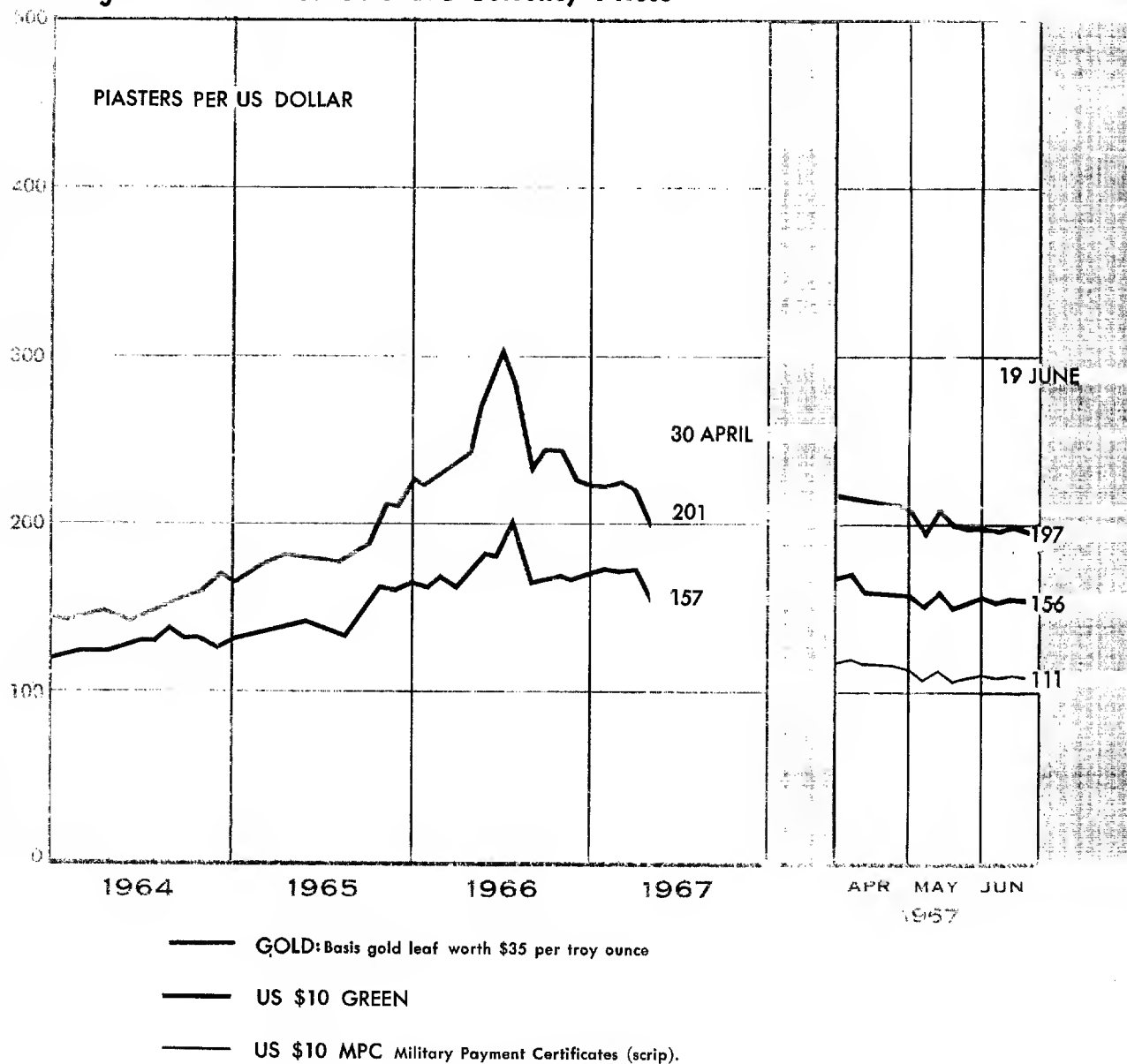
a. Data are from USAID sources. For all indexes 1 January 1965 = 100.

b. Price level just prior to the 18 June devaluation.

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## Saigon Free Market Gold and Currency Prices



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